



News Release

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IRS Offers Opportunity for Employers to Satisfy Tax Obligations of Rank-and-File Employees with 'Backdated' Stock Options

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WASHINGTON — Internal Revenue Service officials today announced an initiative aimed at providing relief for rank-and-file employees affected by their companies' issuance of backdated and other mispriced stock options. While the program will be available to help these employees who may be unaware that they held backdated options, the opportunity will not be available for backdated options exercised by most corporate executives or other insiders.

If an employee exercised a 'backdated' stock option in 2006, the employee may owe an additional 20-percent tax, plus an interest tax, under the Federal tax laws governing deferred compensation. If the option had been properly priced, the employee normally would only have owed income tax on the difference between the value at the date of grant and exercise.

The initiative, described in Announcement 2007-30, allows companies to step forward and pay the additional 20-percent tax and any interest tax that employees owe. The initiative does not permit the company to pay the additional tax for stock options exercised by its top executives or other insiders.

"This shameful practice was widespread," said IRS Commissioner Mark W. Everson. "We are allowing employers to satisfy the tax obligations of employees who did not knowingly participate in these schemes. This initiative does not extend to the executives and insiders who were the principal beneficiaries of the backdating schemes. We continue to pursue these cases and work closely with the Securities and Exchange Commission and the Justice Department as appropriate."

This initiative does not involve or affect any other federal agency's investigations or regulatory action.

Under a 2004 law, the tax consequences associated with backdated and other mispriced stock options issued at a discount affect most recipients who exercised their options in 2006.

If these stock options were issued to the employees at a below-market price, the 2004 law requires an additional 20-percent tax and interest tax on options exercised in 2006. The law does not affect options that were earned and vested before 2005.

Under this initiative, employers must notify the IRS of their intent to participate by Feb. 28, 2007. The employers, in turn, will be required to contact affected employees by Mar. 15, 2007 to inform them that the employer has applied to participate in the Compliance Resolution Program.

Where an option has been backdated, the employee remains obligated to pay the full amount of income tax due upon exercise, including any additional gain realized from backdating, whether or not the employee was aware of the backdating.

Affected employees who have not previously taken corrective action on their own will remain liable for the additional 20 percent tax and the interest tax if their employers do not participate in the program or fail to abide fully by its terms.

Corporations that elect to participate and relieve their affected employees will be required to provide the specific details about the options, including specifics on the tax calculation that will enable the IRS to ensure the U.S. Treasury has received the full amount of taxes owed.

The taxes the companies will pay to relieve employee tax bills will be treated as additional 2007 compensation income for those employees in the 2007 tax year.